



◀ **FASHION:** Resort from Burberry Prorsum, Zero + Maria Cornejo and Alexander Wang (left) pages 6 and 7.



◀ **MEN'S:** Project show names Andrew Pollard president, page 10.

**EYE:** When art and fashion collide — Givenchy hosts an eye-opening party for Marina Abramovic, page 16. ▶



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# WWD THURSDAY

Sportswear/Men's

## French Accent

Small European fashion brands have turned to the past as inspiration for the future, showing modern interpretations that speak to the culture and heritage of their countries. Here, the young, quintessentially French label Bleu de Paname offers its twist on moleskin, which is traditionally used in French workwear. Shown here, Bleu de Paname's jacket, shirt and twill work pants, all in cotton. For more, see pages 8 and 9.



## Emperor's New Clothes: Wal-Mart Seeks Formula To Enliven Apparel Sales

By Sharon Edelson

APPAREL IS WAL-MART STORES INC.'S perennial Achilles' heel — and the question remains whether it will ever be able to repair it.

Even as the world's largest retailer powered through the Great Recession while its competitors stumbled, apparel lagged while food and areas such as consumer electronics soared. And the problem has only become more intense now that the economy has begun to recover and Wal-Mart's competitors are closing the gap.

Wal-Mart is well aware of the weakness. Vice chairman Eduardo Castro-Wright last month said the retailer's apparel business was "below expectations and continues to be a work in progress" as the company reported a 10 percent increase in profits to \$3.32 billion

See **Wal-Mart's**, Page 12

PHOTO BY PASCAL WITZMAN; MODEL: JULIEN SABALCHOD; HAIR: HIRI FREYRIC; MAKEUP: @ B AGENCY; STYLING: LAURENCE FOUCHER  
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PHOTO BY PASCAL WITZMAN; MODEL: JULIEN SABALCHOD; HAIR: HIRI FREYRIC; MAKEUP: @ B AGENCY; STYLING: LAURENCE FOUCHER



# Wal-Mart's Uphill Battle With Apparel

*Continued from page one*

in the first quarter ended April 30 on a 5.9 percent rise in sales to \$99.85 billion, although same-store sales in the U.S. dropped 1.5 percent.

Contrast Target Corp.'s first-quarter results, which reflected a 2.8 percent jump in same-store sales. Target reported a 29 percent increase in first-quarter net income, driven by higher sales of more profitable categories, such as clothing.

Castro-Wright's statement was only the latest in a long litany of admissions by Wal-Mart executives that their apparel business is a headache — and it's even more frustrating as they watch arch rival Target motor ahead in the category. Apparel is one of the most profitable categories at Wal-Mart, with margins of 31 percent. As its stores become saturated in the U.S., the retail giant needs to sell more higher-margin products.

"Wal-Mart has been a laggard for some time in the apparel arena," said Todd Slater, an analyst at Lazard Capital Markets. "They've tried numerous strategies. In an effort to capture more share in this high margin category, Wal-Mart is partnering with suppliers and labels like L.E.L., Starter, Op, and Danskin that provide exclusive, nationally recognized brands with the favorable economics of private label. Wal-Mart is most focused on women's, teens, kids and baby."

The rub is that while Wal-Mart offers brands, aside from juniors, it doesn't advertise or market them as vigorously as other mass merchants.

Part of Wal-Mart's issue is that, as apparel has struggled, it has changed strategies seemingly with the seasons. Long renowned for basics at "everyday low prices," the retailer then tried to make the leap into more fashion with its Metro 7 and George ME by Mark Eisen collections. When both flopped — Metro 7 was cycled out of stores sometime between the end of 2007 and July 2008 and George ME was discontinued in 2007 — it went back to basics.

Since then, the retailer has developed a hybrid approach — low-cost basics supported by well-known national brands, some of which — like L.E.L., Starter, Op and Danskin — are exclusive. It also has linked with Norma Kamali to develop a lifestyle brand that includes women's wear, children's clothing, accessories, footwear and home.

In a sign of hope for the future in Wal-Mart's case, Kamali has embraced the company's populist ethos. "I'm given the support I need to make a quality product," she said. "Wal-Mart is committed to giving their customer what she wants. They have so many customers — that's where the challenge is. I do my thing in the context of the company. I understand my place in it and I've learned so much about the Wal-Mart customer. [My line] is not at all edgy. It's well-made timeless classics at great prices. I'm not doing dumbed-down clothes, but I'm also not going to design a parachute dress for Wal-Mart. I have an organic cotton program I do with them.

"People still have these old ideas about what Wal-Mart is about," she added. "There are so many opportunities to address the needs of the Wal-Mart customer. We're planning to experiment with a large size collection."

Kamali said every item in the large-size collection must be something she would want to wear herself. The large-size line will initially be sold on Wal-Mart's Website in the fall, in keeping with the retailer's tradition of using the site as a testing ground for fashion-forward apparel. For example, walmart.com, which was established in 2000 as a stand-alone company in Brisbane, Calif., introduced narrow-fitting premium denim in a dark wash; however, the brand is no longer sold on the Web site.

"Management is convinced that apparel at mass merchants is not brand driven, and that, instead, Wal-Mart has been 'chasing too much glitter,'" said Bill Dreher, a retail analyst at Deutsche Bank. "They now will focus on basic items such as jeans, T-shirts, underwear and socks. Wal-Mart will also offer more individual pack sizes rather than the family pack size, to help consumers stretch their limited open-to-buy."

Simon Graj, founding partner of Graj and Gustavsen, a New York strategic and creative branding firm, who worked with Wal-Mart in the past, believes the company underestimates the power of brands. "Wal-Mart wants to be viewed as a multi-brand retailer," he said. "They need brands desperately to be validated in the market. Their hidden goal is to build a vertical business. That's where they squeeze out more margins. They haven't figured out the creative piece yet and we're living in creative times. We're no longer in cookie-cutter times. Wal-Mart's growth has to come from consumers who are more affluent."

Wal-Mart has blamed rising gas prices for keeping its customers away in the first quarter, but experts said a contributing factor could have been the fact the retailer dropped more than 300 brands, primarily in grocery, to streamline the look of its shelves. "If we made some mistakes, we'll correct those," said executive vice president and chief financial officer Thomas M. Schoewe during the first-quarter conference call.

Perhaps it's not brands that Wal-Mart finds off-putting, but brands that capture too much attention. The retailer has been burned before when it's ceded the spotlight to high-profile brands. Kathie Lee Gifford's exclusive apparel collection did \$300 million in sales in its first year, according to Gifford, but the TV personality in 1996 was accused of using sweatshop labor to

produce the line and Wal-Mart was vilified in the press. Wal-Mart in 2003 began phasing the brand out of its stores, but the episode left psychological scars on the company.

Wal-Mart also worries that raising its fashion quotient will alienate core shoppers, loyal customers who make multiple store visits each week and have a median household income of \$35,000 to \$40,000. The company may be afraid that apparel linked to a designer is perceived as being more expensive.

"When you get at who the core Wal-Mart consumer is, it's real America," said Alicia Kriese, principal of Perspectives, a Houston-based strategic retail consulting firm. Kriese was executive vice president of GSD&M, the Austin, Tex.-based ad agency that engineered Wal-Mart's 2005 foray into the pages of *Vogue*. The initiative fizzled despite the agency's "hope that certain items could be tagged in stores 'As Seen in *Vogue*.' [We thought] that we could consult with *Vogue* editors when we were in New York about what everyone was going to be wearing," she said. "That developed a little bit, but it didn't have a lasting effect. Some people misconstrued it as Wal-Mart trying to be something it's not."

Sensitive to the charge of overreaching, Wal-Mart speaks to consumers in a friendly, folksy manner, not the voice of a hipper-than-thou designer. The retailer never embraced the designer collaboration model popular with competitor Target, a model that requires giving each limited-time designer a big advertising push and high visibility in stores.

If Wal-Mart wants to add more apparel labels, Kriese believes it's looking for cast-off brands that won't overshadow the most important brand of all, the Wal-Mart brand. "They were interested in acquiring brands, but it was more for the infrastructure than the brand itself," she said. "The rationale is that people buy the trust of Wal-Mart. Wal-Mart sells more jeans than anybody in the world, but can you name what brands they are?"

A source close to Wal-Mart said, "They're figuring out how to become fashionable through color, while still keeping it basic. They sell the most apparel in the U.S., but they're not a fashion house. They sell a lot of goods to mainstream [shoppers]. Their customer is not the fashion elite. If they try to go the other extreme, they'll lose their big base. Wal-Mart doesn't devote as much space to apparel as Target because their biggest business is food." The key to Wal-Mart's apparel strategy, said the source, "is to take basics and give them more color, not think about acquiring brands."



An ad for Wal-Mart's exclusive Op collection for juniors.

Unlike Target, Wal-Mart has never made meaningful strides in luring shoppers across the aisle from groceries to soft goods. Rather, it's developed a stronger food business. Food, with its razor-thin margins, accounted for 51 percent of Wal-Mart's sales last year, versus 49 percent in 2008. At Target, essentials such as groceries account for 40 percent of sales. Wal-Mart's apparel category, which includes jewelry, accounts for 10 percent of sales, a 1 percent decline from last year. Meanwhile, 40 percent of Target's sales come from the more profitable home and apparel categories.

**10%**  
 OF WAL-MART'S  
 SALES ARE  
 ATTRIBUTED TO  
 APPAREL  
 AND JEWELRY

"Wal-Mart benefited from the recession when consumers were only buying what they could eat and drink," said Dreher. "Now we're beginning to come out of the recession. There's strength across the board at all demographic levels. People are back borrowing. Wal-Mart doesn't have the brands."

While Wall Street continues to beat the drum for the higher profits that more fashionable apparel could supply and the press clamors for designs that are more interesting to write about and photograph than standard meat-and-potato fare, Wal-Mart may have a point. Of all of Target's limited-time apparel introductions, the retailer pointed to its recent Liberty of London for Target promotion where Liberty of London prints were splashed over 300 products in several categories, instead of its quirky, avant-garde designer hook-ups. Liberty of London for Target did not fall under the Go International or Designer Collaboration rubrics, but rather was one of the stand-alone collections Target sometimes launches. "[It was] an undisputed success," said Kathryn Tesija, executive vice president of merchandising.

With more than 120 million shoppers visiting Wal-Mart stores every week, the retailer caters to a "huge, huge swath of America," Kriesse said. "Wal-Mart's biggest vulnerability is forgetting who is at the cash register."

And while its executives may grouse that the apparel category remains broken, Kriesse contends Wal-Mart is catering more than ever to the needs of those consumers. "The average size of the American woman is 14 or 16," she said. "Rather than shy away from that, Wal-Mart is embracing it. Most of the decisions [about apparel] are driven by what customers want, which translates in Wal-Mart terms into what will sell. Rather than following fashion trends, Wal-Mart is following customer trends. My favorite quote from a focus group was, 'I don't care what's on the catwalks, I care what's on the sidewalk.'"

As Wal-Mart knows, the sidewalk is becoming increasingly crowded with overweight Americans. According to the Gallup-Healthways Well-Being Index, 63.1 percent

of adults in the U.S. were overweight or obese in 2009, making Kamali's large-size collection seem like a no-brainer.

"A large-size collection is something nobody has capitalized on," said Suzanne Hader, principal of 400Twin consulting in Manhattan. "Given the fact that fashion is allergic to large sizes in general, it's an area of opportunity. There's so much room in the market to offer good, traditional sportswear basics in plus sizes that aren't completely frumpy."

Slater noted Wal-Mart is starting to roll out ancillary programs for certain brands. Starter, which sources said does close to \$1 billion in annual sales, has a \$300 million sock program in place. "They [Starter] could do weights, fitness equipment, water bottles and health bars," Slater said. "But making fashion ubiquitous is complicated and an inherent conflict exists between Wal-Mart's customer and the need for fashion and commercial viability. No company in the world can deliver a product from supplier to consumer as efficiently and low cost as Wal-Mart. Wal-Mart excels at boxes, but they have a very difficult time with hangers."

As consumers begin to return to their pre-recession shopping haunts, "the challenge for Wal-Mart is to improve the apparel offering," said Michael Stone, co-founder, president and chief executive officer of Beanstalk Group, a brand licensing agency and consulting firm. "Wal-Mart has had great success in other categories with brands. Better Homes & Gardens outdoor furniture and home furnishings is a \$1 billion business. We ran the Mary-Kate and Ashley program for Wal-Mart for 10 years. All the design was done by Mary-Kate and Ashley's [Olsen] company. We launched Dansk and it was great [because] the design was done by Dansk. It's frustrating that Wal-Mart doesn't do a good job of drawing a fashion consumer into stores. The Miley Cyrus and Max Azria and Norma Kamali launches are good, but, unless Wal-Mart puts a lot of marketing support behind them, they don't mean much."

Only in juniors does Wal-Mart take the liberty of getting

more racy. Its tag line, "Save money, live better," has little relevance for teens, but "Rock your shine" — a TV campaign that features Cory Monteith and Dianna Agron of "Glee," Jessica Szohr of "Gossip Girl," Trevor Donovan of "90210" and Alex Meraz of "Twilight" — strikes the right note. The teens are seen cavorting at a barbecue, hanging at a party and walking down a dark street "Entourage"-style. Corresponding ads in fashion magazines appear this month.

The other issue the retailer faces is that it's not only about the product itself; in order to attract more affluent consumers, Wal-Mart must improve the shopping experience. "Point of purchase has to be much more than just hanging merchandise," Graj said. "It's very difficult because every inch [of the store] is merchandised. The merchants don't think about what the brands stand for, their purpose and lifestyle. They still think in terms of product, but they don't have the image for the product."

Wal-Mart has addressed productivity and store appeal with Project Impact. At the new Supercenter in North Bergen, N.J., brands are identified by bold signs on tables and on the walls. "Wal-Mart is trying to make it easier for the customer to shop by category, which means selling baby apparel with baby consumables such as diapers and formula, and merchandising kid's shoes with kid's socks," said Slater. "Accessories are now in the women's department. In juniors, all of the Wal-Mart brands are merchandised as shop-in-shops in a brand alley, with Faded Glory at the front. Apparel statements aren't as fixture deep, creating a more shoppable environment. There was a focus on reduced skus [stockkeeping units], and a focus more on key classifications to drive business, such as socks, jeans and underwear."

In the end, though, the key question is whether Wal-Mart and fashion fit together at all. "Wal-Mart could do low-priced, totally affordable basics in lots of colors and shapes and a vast range of sizes, said Hader. "They could occupy that space, but what story would they tell around that? Wal-Mart's story always defaults to price. With apparel, you need more. They either need to partner with good brands that give them good leverage or they need a story about their position in the apparel market. Wal-Mart is always going to sell clothing the way it sells commodities, but there has to be a story about why. Wal-Mart apparel is relevant. People need to feel there's a reason for buying clothing there. For example, does it make you smart if you buy your shirts and groceries in the same place?"



Miley Cyrus in a look from her Miley Cyrus and Max Azria line.



**GREATEST SARTORIAL HITS OF THE MASS MARKET**

- Wal-Mart sold \$300 million worth of Kathie Lee Gifford's clothing line in its first year, according to Gifford.
- Isaac Mizrahi for Target rang up \$300 million in annual sales.
- Mossimo Giannulli in 2001 signed an exclusive license agreement with Target that guaranteed sales of \$1 billion over three years.
- Wal-Mart's Metro 7 got off to a fast start when it bowed in 350 stores in 2005. Metro 7 was expanded to 1,500 stores before distribution was cut to below 1,000.
- Oxford signed a licensing agreement in 1991, giving Target exclusive rights to design and merchandise the Merona label. Merona is being relaunched in the fall with a stronger fashion point of view.
- Levi Strauss Signature jeans launched in 2003 at Wal-Mart, priced under \$30. Signature remained exclusive to Wal-Mart until 2006; however, by then, sales were falling because, according to Levi's, Wal-Mart de-emphasized Signature to concentrate on its own private label, Metro 7.
- Levi Strauss Signature Totally Slimming line of jeans bowed in 2008 at Wal-Mart.



**TARGET'S DESIGNER HOOK-UPS**

- Target's Go International, which has featured designers from Anya Hindmarch to Zac Posen, represents more than \$100 million in sales.
- Most avant-garde Go collection: Rodarte
- Most wearable Go collection: Tracy Feith
- Most popular Go Collection: Liberty of London for Target
- Designer Collaborations began in March 2009 and has featured Alexander McQueen, Anna Sui and Jean Paul Gaultier. Each designer drew inspiration from a collaborative partner, muse or creative element.
- Celebrity-studded pop-up shop: Anna Sui's four-story town house at 54 Crosby Street in Manhattan's SoHo neighborhood was filled with the cast of the TV series "Gossip Girl."
- Visual effects: At Liberty of London for Target's pop-up store on the corner of 42nd Street and Sixth Avenue in New York, Liberty of London designs were projected onto walls and oversize products such as umbrellas and lamp shades. Flowers bloomed in display areas.
- Fleeting pop-up: Target-To-Go at Gansevoort and Washington Streets was gone in three days.